



Maryland Health Benefit Exchange Financial Sustainability Advisory Committee

October 24, 2011

Agenda

- Exchange Financing Principles Examples
- Key Considerations
- Financing Options

Exchange Financing Principles (Examples)

- Revenue basis should be stable, reliable, and predictable
- Financing method should not discourage members or carriers from utilizing or participating in the exchange
- Financing method should provide sufficient flexibility to support exchange variability during first few years of operation or in the event of low enrollment
- If the Exchange adopts a broad based method, the Board should consider all stakeholders who benefit from the increase in insurance facilitated by the exchange

Exchange Financing Principles (Cont.)

- Assessment should begin in 2014 (first year of exchange operations)
- Adequacy of assessment should be evaluated annually
- State funds should not be utilized to fund exchange operations

Key Considerations

- Stability/predictability
- Impact on member and carrier participation
- Sustainability at different levels of enrollment
- Broad vs. Narrow
 - Is the exchange a business or a public good?
 - Who benefits from expanded coverage?

1. QHP Assessment – Exchange Membership Only

Pros

- Most closely related to exchange business operations and market relationships
- Assessment is invisible to enrollee; spread across market inside/outside the exchange
- As enrollment grows, allows exchange to lower assessment and prevents need to tap into other revenue sources
- Narrow focus on carriers that most benefit from exchange enrollment

Cons

- Highly sensitive to enrollment scale
- At low enrollment levels, fee as percent of premium may be high
- Large differential between exchange business and non-exchange business (for example, if enrollment is low and fee high) may incent carriers to sell outside exchange – *does not affect member premium for same product*

2. QHP Assessment – All Membership

Pros

- Retains close link to exchange business relationships
- Larger base for assessment allows for lower fee level
- Reduces incentive for carriers to sell outside exchange by eliminating difference between in/out
- Captures aspect of exchange value that allows individuals to “shop” using the exchange and then purchase in open market

Cons

- Fee remains focused on participating carriers, still a relative narrow base for assessment (if focused on small/non group only)
- Holds risk that if large carriers drop out, revenue model becomes unsustainable
- Distinction between participating/non-participating plans may incent non-participation

3. All Carriers – Fully Insured Membership

Pros

- Further expands base, allowing for lower overall rate and greater stability in revenue stream
- Reduces incentive for non-participation by eliminating potential price advantage to non-participation
- Reflects overall value of ACA in bringing additional membership into the market

Cons

- Removes direct link between exchange business relationships and funding source
- Could raise concerns for carriers that are/are not participating and/or succeeding in exchange market
- May require legislation

4. Broad-based Assessment – Health Care Market (e.g., hospital revenue, health related user fee)

Pros

- Further broadens base, to include public and self-insured markets, lowering overall rate and providing greater stability to revenue stream
- Recognizes broader value of health care reform to industry as a whole

Cons

- Further reduces link between exchange business relationships and funding source
- Could present challenges related to perception that new assessment increases premium levels for non-exchange markets, including large employers
- May require legislation

5. Broad-based Assessment – Other (e.g. “sin” or other tax/fee revenue)

Pros

- Broadest revenue source, spreading revenue requirements over largest base
- Avoids concentrating impact of exchange revenue solely on health care industry
- Entails recognition of exchange’s value as a public good

Cons

- Further reduces link between exchange activities and parties most directly benefited
- Creates mechanism that could be construed as raising taxes
- Most likely requires legislation
- Reduces flexibility

6. Re-purpose existing revenue stream, leveraging new market dynamics under ACA

Pros

- Prevents need for new assessment or revenue source that is additive to market costs
- Reflects shift in market structure and culture as coverage expands
- Structurally captures benefit of reform (e.g., by leveraging growth in insurer and/or provider revenue)

Cons

- While conceptually possible, actual market dynamics from ACA implementation remain uncertain
- Interplay with other processes (e.g., waiver, rate regulation, reinsurance pool) enhances contingencies/uncertainties

7. Combination of Options (e.g., #1 and #6)

Pros

- Provides greater flexibility and stability for the exchange
- Recognizes dual nature of exchange as both business and public entity
- Recognizes potential need to adjust revenue source/amount as experience unfolds

Cons

- Potentially increases complexity in revenue forecasting and management
- Depending on preferred methods, can raise similar concerns as outlined in preceding slides



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